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AZ CORP COMMISSION  
DOCKET CONTROL

ORIGINAL

8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

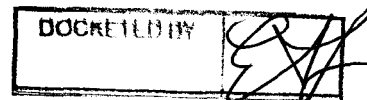
10 **COMMISSIONERS**

11 BOB STUMP, CHAIRMAN  
12 GARY PIERCE  
13 BRENDA BURNS  
14 SUSAN BITTER-SMITH  
15 BOB BURNS

Arizona Corporation Commission

**DOCKETED**

AUG 04 2014



16 **APPLICATION OF NACO WATER**  
17 **COMPANY, LLC FOR A PERMANENT**  
18 **INCREASE TO ITS WATER RATES**

DOCKET NO: W-02860A-13-0399  
**NOTICE OF FILING REBUTTAL**  
**TESTIMONY**

20 Naco Water Company, L.L.C. ("Company" or "Naco"), hereby files rebuttal  
21 testimonies described below:

- 22 • Rebuttal Testimony of Matthew Rowell (*see* Attachment 1); and
- 23 • Rebuttal Testimony of Bonnie O'Connor (*see* Attachment 2).

25 ////

26 ////

28 ////

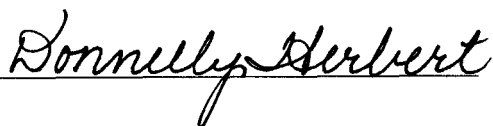
1  
2 RESPECTFULLY SUBMITTED this 4<sup>th</sup> day of August, 2014.  
3

4 MOYES SELLERS & HENDRICKS LTD.  
5

6   
7 Steve Wene  
8

9 Original and 13 copies of the foregoing  
10 filed this 4<sup>th</sup> day of August, 2014, with:

11 Docket Control  
12 Arizona Corporation Commission  
13 1200 West Washington  
14 Phoenix, Arizona 85007

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# **ATTACHMENT 1**

1                   **BEFORE THE ARIZONA CORPORATION COMMISSION**

2

3

4    **COMMISSIONERS**

5    BOB STUMP, CHAIRMAN

6    GARY PIERCE

7    BRENDA BURNS

8    SUSAN BITTER-SMITH

9    BOB BURNS

10   **APPLICATION OF NACO WATER**

11   **COMPANY, LLC FOR A PERMANENT**

12   **INCREASE TO ITS WATER RATES**

DOCKET NO: W-02860A-13-0399

**REBUTTAL TESTIMONY**  
**OF MATTHEW ROWELL**

13

14   **I.     INTRODUCTION**

15   **Q.     Are you the same Matthew Rowell who provided testimony in support of the**

16   **rate application filed in this matter?**

17

18   **A.     Yes.**

19   **Q.     Did you prepare rebuttal schedules in support of your testimony?**

20   **A.     Yes, and I adopt those schedules, which are attached, as part of my testimony.**

21

22   **II.    RATE BASE**

23   **Q.     Please discuss Staff's Rate Base Adjustment No. 1.**

24   **A.     This adjustment removes \$2,357 from the Distributions Reservoirs and Standpipes**

25   **account and classifies \$1,648 of it as Pumping Equipment and \$709 as Pressure Tank.**

26   **The Company accepts the \$1,648 reclassification to Pumping Equipment (starting in**

27   **2007) but objects to the reclassification of the \$709 to Pressure Tank. The Company**

28

1 does not currently maintain a separate Pressure Tank account. The Pressure Tank  
2 Account (330.2) is a subaccount under the Distributions Reservoirs and Standpipes  
3 account (330). Inserting this subaccount into the Company's books would be a time  
4 consuming and costly task without discernable benefit. The Company's current practice  
5 has not lead to any problems. Staff was able to effectively audit the Company without  
6 this subaccount being tracked by the Company. The Company notes that in Naco's last  
7 rate case this subaccount was not broken out and Staff did not object. The Company  
8 notes further that the Annual Report form and Rate Case Application form Staff makes  
9 available on its website do not include the Pressure Tank Subaccount.  
10  
11  
12

13 **Q. Please discuss Staff's Rate Base Adjustment No. 2.**

14 A. Staff's Rate Base Adjustment No. 2 reclassifies \$267,430 from Transmission and  
15 Distribution Mains (Account 331) to Services, Meters, and Wells and Springs. This  
16 adjustment also removes \$18,468 from Plant in Service. The Company accepts the  
17 reclassifications but is opposed to most of the \$18,468 that Staff recommends be removed  
18 from plant in Service. The \$18,468 is made up of \$6,721 for a trailer and \$11,748 for  
19 2006 rate case expense and for work done on a WIFA grant application.  
20  
21

22 Staff argues that the trailer should be removed from Transmission and Distribution  
23 Mains (Account 331) because it is also accounted for in the Transportation Equipment  
24 Account (341). Staff does not appear to be saying that the trailer should be disallowed,  
25 just that it should not be double-counted. The Company agrees that the trailer is  
26 properly accounted for in the Transportation Equipment Account (341). But the trailer  
27  
28

1 was not included in the Transmission and Distribution Mains Account (331). Therefore,  
2 it should not be removed from that account.  
3

4       Regarding the \$11,748 for 2006 rate case expense and for work done on a WIFA  
5 grant application, the Company agrees that some rate case expense was capitalized but  
6 that Staff overstates the amount and the Company believes the costs of the WIFA grant  
7 application were properly capitalized. The bulk (\$7,908) of the costs identified by Staff  
8 as rate case expense comes from invoice 32307A from Tierra Dynamics (an engineering  
9 consulting firm). This invoice is 15 pages long and covers a total of over \$49,000 in  
10 costs. With an invoice of this length and complexity, it can of course be difficult to  
11 determine exactly how amounts should be categorized. My review of this invoice  
12 identifies only \$138 that appears to be rate case expense. The remainder of the rate case  
13 expenses (from invoices 32700 and 32922) that Staff proposes to remove from plant in  
14 service appears to be valid.  
15  
16  
17

18       Regarding the WIFA grant application costs, the Company believes that such costs  
19 are properly capitalized. These are costs directly associated with getting plant built and  
20 as such their proper treatment is capitalization. The Company's position is summarized  
21 in Table 1 on the following page:  
22  
23  
24  
25  
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28

**Table 1 Response to Staff's Rate Base Adjustment No.2**

Invoice	Year	Description	Staff Proposed Adjustment	Company Proposed Adjustment
32307A	2006	2006 ACC Rate Case Expense	(7,908)	(138)
32307A	2006	WIFA 2008 TA Grant Ap Expense	(925)	0
32700	2006	2006 ACC Rate Case Expense	(925)	(925)
92322	2007	2006 ACC Rate Case Expense	(1,508)	(1,508)
32922	2007	WIFA 2008 TA Grant Ap Expense	(1,124)	0
<b>Total 2006 rate expense and WIFA grant application</b>			<b>(11,748)</b>	<b>(2,571)</b>
33327	2008	Water Trailer	(6721)	0

**Q. Please discuss Staff's Rate Base Adjustment No. 3.**

A. The Company notes that this adjustment involves post test year plant the Company did not seek to include in rate base. The adjustment has minimal impact on the revenue requirement and Staff's thorough scrutiny of the post test year plant has led to higher than anticipated rate case expense (discussed further below). The Company also notes that the amount of the post test year plant Staff is recommending here is somewhat different than that reported by the Company in response to Staff's data requests. Staff does not explain this difference. The Company believes the amounts reported in its data request response (PT 10.1) should be used.

**Q. Please discuss Staff's Rate Base Adjustment No. 4.**

A. The Company accepts Staff's proposed \$49,711 plant in service reduction associated with plant retired as a result of the post test year plant installed in 2013.

1 **Q Please discuss Staff's Rate base Adjustment No. 5.**

2 A. This adjustment provides Staff's recalculation of accumulated depreciation as a  
3 result of its other plant adjustments. Since the Company did not totally accept those  
4 adjustments, the Company's accumulated depreciation number is somewhat different.  
5

6 **Q. Please discuss Staff's Rate Base Adjustment No. 6.**

7 A. This adjustment includes all of the CIAC associated with the post test year plant  
8 that is the subject of Staff's rate base adjustment No. 3. As with adjustment No. 3,  
9 Staff's adjustment is somewhat different than the amount booked by the Company for  
10 2013 CIAC additions. The Company believes the amount of CIAC should equal the  
11 2013 plant additions.  
12  
13

14 **III. OPERATING INCOME**

15 **Q. Please discuss Staff's Operating Income Adjustment No. 1.**

16 A. The Company does not object to Staff's Operating Income Adjustment No. 1.  
17

18 **Q. Please discuss Staff's Operating Income Adjustment No. 2.**

19 A. The Company opposes Staff Operating Income Adjustment No. 2. This  
20 adjustment proposes to do away with the Office Supplies and Expense account and  
21 reclassify its contents to other accounts. Staff's rationale for this reclassification is that  
22 there is no Office Supplies and Expense account under the NARUC USOA. Staff is  
23 correct that there is no Office Supplies and Expense account under the NARUC USOA.  
24 However, there is a long history of this accounts use in Arizona. Staff created this  
25 account many years ago because it was believed that the standard NARUC accounts did  
26 not provide an appropriate place to classify office expenses. This account is used widely  
27  
28



1 in the Arizona water industry. Every water rate case I have been involved in has included  
2 Office Supplies and Expense as an expense account. The Annual Report form and Class  
3 D Rate Case Application form that the Staff makes available on the ACC's website both  
4 include an Office Supplies and Expense account. There is no reason that Naco should be  
5 singled out for its use of this account and forced to incur the expense of changing its  
6 accounting systems.  
7

8  
9 The Company also objects to Staff's reclassification of fees imposed by WIFA as  
10 interest expense. These fees are clearly not interest and thus should not be classified as  
11 such.  
12

13 **Q. Please discuss Staff's Operating Income Adjustment No. 3.**

14 A. This adjustment is similar to Operating Income Adjustment No. 2 discussed  
15 above. Staff proposes to eliminate the Outside Services account and reclassify its  
16 contents in order to conform with the NARUC USOA. As with the Office Supplies and  
17 Expense account discussed above, the Outside Services Account is widely used in the  
18 Arizona Water Industry and the Annual Report form and Class D Rate Case Application  
19 form that Staff makes available on the ACC's website both include it. For these reasons  
20 the Company is opposed to Staff's Operating Income Adjustment No. 3.  
21

22  
23 **Q. Please discuss Staff's Operating Income Adjustment No. 4.**

24 A. The Company accepts Staff's Operating Income Adjustment No. 4.  
25

26 **Q. Please discuss Staff's Operating Income Adjustment No. 5.**

27 A. This adjustment reduces rate case expense recovery by changing the amortization  
28 period for rate case expense to 5 years from 3. The Company does not agree that a 5 year

1 amortization period for rate case expense is appropriate. The Company plans on filing  
2 rate cases more frequently in the future. However as a compromise position the  
3  
4 Company proposes a 4 year amortization period.

5 Since this case has been much more complex and time consuming than anticipated  
6 the Company is increasing its overall rate case expense as discussed below.

7  
8 **Q. Please discuss Staff's Operating Income Adjustment No. 6.**

9 A. This adjusts depreciation expense for Staff's plant adjustments. Since the  
10 Company does not accept all of Staff's plant adjustments, the Company's proposed  
11 depreciation expense is somewhat different than Staff's.

12  
13 **Q. Please discuss Staff's Operating Income Adjustment No. 7.**

14 A. The Company accepts this adjustment.

15  
16 **Q. Is the Company Proposing any additional Operating Income adjustments?**

17 A. Yes, the Company is proposing an increase to Rate Case Expense. The Company  
18 had not planned on including the post test year Plant discussed above in this rate case.  
19 Since this plant was funded by CIAC its inclusion in the rate case would have minimal  
20 impact on the revenue requirement. In spite of this, Staff inundated the Company with  
21 data requests regarding the post test year plant. Responding to these data requests and  
22 developing the attached Rebuttal schedules that deal with the post test year plant was a  
23 time consuming and labor intensive task. The Company did not anticipate this amount of  
24 work when the rate case was filed and thus an increase to the Rate Case Expense is  
25 justified.  
26  
27  
28

1 Q. Are there other reasons why the Company is seeking an increase to Rate Case  
2 expense?  
3

4 A. Yes. Staff's audit of the Company's plant additions since the last rate case was  
5 remarkably thorough. In fact, calling Staff's review of this case an "audit" may  
6 understate the extent of Staff's review. An "audit", as the term is typically used, involves  
7 a detailed review of a Company's books to determine whether its accounting is in order.  
8 Audits are typically statistical in nature, that is, a sample of records is reviewed as  
9 opposed to 100% of the records. Staff has gone far beyond an audit here. Staff has  
10 essentially performed a complete reconstruction of the past eight years of plant records.  
11 Assisting Staff in this endeavor (through responses to multiple data requests and emails)  
12 has resulted in costs beyond those anticipated by the Company.  
13  
14

15 The cost of responding to Staff's data requests and other questions was  
16 exacerbated by the fact that two different Staff members were independently performing  
17 this reconstruction of the Company's historical accounting records. This lead to multiple  
18 overlapping data requests and inquires.  
19  
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21 Responding to Staff's data requests and inquires was more time consuming than  
22 the Company had initially anticipated. In total the Company responded to thirteen  
23 separate data requests and dozens email inquires. The Company has produced an  
24 incredible 1,653 pages of documents for Staff review and consideration in this case. This  
25 has also lead to an upward adjustment in the Company's requested Rate Case expense.  
26

27 ////  
28

1 **IV. REVENUE REQUIREMENT**

2 **Q. Has the Company revised its requested revenue requirement?**

3  
4 A. Yes. After the above discussed adjustments were applied, the Company's  
5 previous revenue requirement was no longer sufficient to provide the level of free cash  
6 flow and the DSCR initially requested. The revenue requirement requested here is  
7 \$1,158 higher than that requested in the application.  
8

9 **V. RATE DESIGN**

10 **Q. Please discuss Staff's proposed rate design.**

11  
12 A. The Company is not opposed to Staff's proposed rate design methodology. Since  
13 the Company's proposed revenue requirement is different from Staff's proposal, the  
14 actual rates produced are different. However, the manner in which the revenue increase  
15 was spread across the monthly minimum charges and the various commodity rate tiers is  
16 very similar in both Staff's and the Company's proposed rate design. Revised rates for  
17 the Company's revised revenue requirement are provided in schedule MJR 13.  
18

19 **VI. OTHER ISSUES**

20  
21 **Q. Please discuss Staff's recommendation regarding water loss.**

22 A. Staff is proposing that the Company implement the provisions of its water loss  
23 reduction plan. That plan envisioned spending \$1,400 a month on meter replacements  
24 and \$9,550 on a leak detection program. The Company does not believe it should be  
25 ordered to implement this plan.  
26

27 Schedule MJR 9 shows the free cash flow and the DSCR at the Company's and  
28 Staff's proposed rates. The Column labeled "Staff Recommended 1" includes both the

1 meter replacements and the leak detection program. The column labeled "Staff  
2 Recommended 2" includes just the meter replacement program. In either case, if the  
3 Company is ordered to undergo these expenditures, its free cash flow will be well below  
4 that represented by Staff and its DSCR will be barely above that required by WIFA.  
5 Recall that the low level of the DSCR is the primary reason why this rate case was filed.  
6

7  
8 The Company is willing to implement a meter replacement program if adequate  
9 provisions are made to the revenue requirement.

10 **Q. Does this conclude your Rebuttal Testimony?**

11  
12 **A. Yes.**  
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# **SCHEDULES**

**Naco Water Company**  
Docket No. W-02860A-13-0399  
Test Year Ended December 31, 2012

**Schedule MJR 1 (REBUTTAL Schedule B-2)**  
**Title: Original Cost Rate Base**  
**Proforma Adjustments**

<b>Line Description</b>	<b>Test Year 2012 as Adjusted</b>	<b>Post Test Year Changes</b>	<b>Year End 2013</b>
1 Gross Utility Plant in Service	\$ 2,222,903	\$ 1,138,620	\$ 3,361,523
2 Less: Accumulated Depreciation	(670,808)		(784,227)
3 Net Utility Plant in Service	\$ 1,552,095		\$ 2,577,296
4 Less:			
5 Advances in Aid of Construction	\$ (20,753)		\$ (20,753)
6 Contributions in Aid of Construction	(40,133)	(1,186,333)	(1,226,466)
7 Customer Deposits	(8,950)		(8,950)
8 Plus:			
9 Amortization of Contributions	\$ 25,992	\$ 10,064	\$ 36,056
10 Allowance for Working Capital	-		-
11 <b>Total Rate Base</b>	<b>\$ 1,508,251</b>		<b>\$ 1,357,183</b>

Naco Water Company  
Docket No. W-02860A-13-0399  
Test Year Ended December 31, 2012

Schedule MJR 2 (REBUTTAL Schedule E-5)  
Title: Detail of Utility Plant

Line	Account Number	Description	Test Year 2012 as Adjusted	Pre-2013 Adjustments	Post Test Year Plant	Post Test Retirements	Year End 2013
1	302	Franchises	\$ 198	\$ -			\$ 198
2	303	Land & Land Rights	4,345	-			4,345
3	304	Structures & Improvements	5,918	-	8,183		14,101
4	307	Wells & Springs	128,561	5,279	345,069	(20,110)	458,799
5	311	Pumping Equipment	194,487	1,648	49,405	(21,508)	224,032
6	320	Water Treatment Equipment	1,824	-			1,824
7	320.1	Water Treatment Plants	-				-
8	320.2	Solution Chemical Feeders	-				-
9	330	Distribution Reservoirs & Standpipes	137,771	(1,648)	313,675	(8,093)	441,705
10	330.1	Storage Tanks	-				-
11	330.2	Pressure Tanks.	-				-
12	331	Transmission & Distribution Mains	1,498,997	(270,001)	472,990		1,701,986
13	333	Services	136,839	225,051			361,890
14	334	Meters & Meter Installations	46,800	37,100	1,580		85,480
15	335	Hydrants	34,717	-			34,717
16	339	Other Plant and Misc Equipment	-				-
17	340	Office Furniture & Equipment	9,202	-			9,202
18	340.1	Computers and Software	-				-
19	341	Transportation Equipment	20,298	-			20,298
20	343	Tools, Shop, and Garage Equipment	128	-			128
21	345	Power Operated Equipment	2,818	-			2,818
22	348	Other Tangible Plant	-	-			-
23		<b>Total Plant In Service</b>	<b>\$ 2,222,903</b>	<b>\$ (2,571)</b>	<b>\$ 1,190,902</b>	<b>\$ (49,711)</b>	<b>\$ 3,361,523</b>
24	108	Accumulated Depreciation	(670,808)				(784,227)
25		Net Plant In Service	\$ 1,552,095				\$ 2,577,296
26	103	Property Held for Future Use	-				-
27	105	Construction Work in Process	378,346				-
28		<b>Total Net Plant</b>	<b>\$ 1,930,441</b>	<b>\$ -</b>			<b>\$ 2,577,296</b>



## Naco Water Company

Docket No. W-02860A-13-0399

Test Year Ended December 31, 2012

## Schedule MJR 3 (REBUTTAL Schedule C-1)

Title: Adjusted Test Year Income

Statement

Line	Acct	Description	Test Year As Adjusted	Rebuttal Adjustments	Test Year Results After Rebuttal Adjustments	Proposed Rate Increase	Adjusted Test Year With Rate Increase
<b>Revenues</b>							
1	461	Metered Water Revenue	\$ 248,165	\$ -	\$ 248,165	\$ 51,241	\$ 299,406
2	460	Unmetered Water Revenue	-	-	-	-	-
3	474	Other Water Revenue	6,924	-	6,924	-	6,924
4		Total Revenues	\$ 255,089		\$ 255,089	\$ 51,241	\$ 306,330
5							
6		<b>Operating Expenses</b>					
7	601	Salaries and Wages	\$ 16,712	\$ -	\$ 16,712	\$ -	\$ 16,712
8	604	Employee Pensions and Benefits	-	-	-	-	-
9	610	Purchased Water	-	-	-	-	-
10	615	Purchased Power	8,999	-	8,999	-	8,999
11	618	Chemicals	684	-	684	-	684
12	620	Materials & Supplies	8,127	(5,756)	2,371	-	2,371
13	621	Office Supplies and Expense	33,446	-	33,446	-	33,446
14	630	Outside Services	58,374	-	58,374	-	58,374
15	631	Contractual Services - Professional	-	-	-	-	-
16	635	Contractual Services - Testing	3,596	486	4,082	-	4,082
17	636	Contractual Services - Other	-	3,871	3,871	-	3,871
18	640	Rents	2,200	-	2,200	-	2,200
19	650	Transportation Expenses	6,073	-	6,073	-	6,073
20	567	Insurance - General Liability	5,165	-	5,165	-	5,165
21	659	Insurance - Health and Life	3,170	-	3,170	-	3,170
22	665	Regulatory Expenses	63	-	63	-	63
23	666	Regulatory Expense Rate Case	9,230	3,270	12,500	-	12,500
24	670	Bad Debt Expense	-	-	-	-	-
25	675	Miscellaneous Expenses	-	-	-	-	-
26	403	Depreciation Expenses	54,654	(512)	54,142	-	54,142
27	408	Taxes Other Than Income	1,229	-	1,229	-	1,311
28	408.11	Property Taxes	12,486	(930)	11,556	774	12,330
29	409	Income Taxes	4,610	-	4,610	7,977	12,587
30	427.4	Interest Expense - Customer Deposits	306	-	306	-	306
31		Total Operating Expenses	\$ 229,124	\$ 429	\$ 229,554		\$ 238,387
32							
33		<b>OPERATING INCOME/(LOSS)</b>	\$ 25,964		\$ 25,535		\$ 67,943
34							
35		<b>Other Income/(Expense)</b>					
36	419	Interest and Dividend Income	\$ 6	\$ -	\$ 6	\$ -	\$ 6
37	421	Non-Utility Income	-	-	-	-	-
38	426	Interest Expense	(1,717)	-	(1,717)	-	(1,717)
39	427	Extraordinary Deductions	-	-	-	-	-
40		Total Other Income/(Expense)	\$ (1,711)	\$ -	\$ (1,711)		\$ (1,711)
41							
42		<b>NET INCOME/(LOSS)</b>	\$ 24,253		\$ 23,824		\$ 66,232

Naco Water Company

Docket No. W-02860A-13-0399

Test Year Ended December 31, 2012

Schedule MJR.4 (REBUTTAL Schedule C-2)

Title- Adjusted Test Year Income Statement

Line	Acct #	Revenues	Test Year				Test Year			
			As Adjusted	Staff Adj 1	Staff Adj 4	Staff Adj 6	Staff Adj 7	Rebuttal Adj 1	Pro Forma Adj 1	Results After Adjustments
1	461	Metered Water Revenue	\$ 248,165							\$ 248,165
2	460	Unmetered Water Revenue	-							-
3	474	Other Water Revenue	6,924							6,924
4		Total Revenues	\$ 255,089							\$ 255,089
5										
6		Operating Expenses								
7	601	Salaries and Wages	\$ 16,712							\$ 16,712
8	604	Employee Pensions and Benefits	-							-
9	610	Purchased Water	-							-
10	615	Purchased Power	8,999							8,999
11	618	Chemicals	684							684
12	620	Materials & Supplies	8,127	(5,756)						2,371
13	621	Office Supplies and Expense	33,446							33,446
14	630	Outside Services	58,374							58,374
15	631	Contractual Services - Professional	-							-
16	635	Contractual Services - Testing	3,596		486					4,082
17	636	Contractual Services - Other	-	3,871						3,871
18	640	Rents	2,200							2,200
19	650	Transportation Expenses	6,073							6,073
20	567	Insurance - General Liability	5,165							5,165
21	659	Insurance - Health and Life	3,170							3,170
22	665	Regulatory Commission Expenses	63							63
23	666	Regulatory Commission Expense Rate Case	9,230					3,270		12,500
24	670	Bad Debt Expense	-							-
25	675	Miscellaneous Expenses	-							-
26	403	Depreciation Expenses	54,654			(512)				54,142
27	408	Taxes Other Than Income	1,229							1,229
28	408.11	Property Taxes	12,486				(930)			11,556
29	409	Income Taxes	4,610							4,610
30	427.4	Interest Expense - Customer Deposits	306							306
31		Total Operating Expenses	\$ 229,124							\$ 229,554
32										
33		OPERATING INCOME/(LOSS)	\$ 25,964							\$ 25,535
34										
35		Other Income/(Expense)								
36	419	Interest and Dividend Income	\$ 6							\$ 6
37	421	Non-Utility Income	-							-
38	427	Interest Expense	(1,717)							(1,717)
39	437	Extraordinary Deductions	-							-
40		Total Other Income/(Expense)	\$ (1,711)							\$ (1,711)
41										
42		NET INCOME/(LOSS)	\$ 24,253							\$ 23,824

ADJUSTMENT TO DEPRECIATION EXPENSE DUE TO CHANGES IN PLANT BALANCE

Line	Account Number	Description	Plant Year End 2013	Non Depreciable Or Fully Depreciated Plant	Depreciable Plant	Proposed Depreciation Rate	Proposed Depreciation Expense
1	301	Organization	\$ 198	\$ 198	\$ -	0.00%	\$ -
2	303	Land & Land Rights	4,345	4,345	-	0.00%	-
3	304	Structures & Improvements	14,101	4,101	10,000	3.33%	333
4	307	Wells & Springs	458,799		458,799	3.33%	15,278
5	311	Pumping Equipment 1	224,032	132,559	91,473	12.50%	11,434
6	320	Water Treatment Equipment	1,824		1,824	3.33%	61
7	330	Distribution Reservoirs & Standpipes	441,705		441,705	2.22%	9,806
8	331	Transmission & Distribution Mains	1,701,986		1,701,986	2.00%	34,040
9	333	Services	361,890		361,890	3.33%	12,051
10	334	Meters & Meter Installations 2	85,480	28,060	57,420	8.33%	4,783
11	335	Hydrants	34,717		34,717	2.00%	694
12	339	Other Plant and Misc Equipment	-		-	6.67%	-
13	340	Office Furniture & Equipment	9,202	9,202	-	6.67%	-
14	340.1	Computers and Software	-	-	-	33.33%	-
15	341	Transportation Equipment	20,298	20,298	-	20.00%	-
16	343	Tools, Shop, and Garage Equipment	128		128	5.00%	6
17	345	Power Operated Equipment	2,818	2,818	-	5.00%	-
18	346	Communication Equipment	-		-	10.00%	-
19	347	Miscellaneous Equipment	-		-	10.00%	-
20	348	Other Tangible Plant	-		-	10.00%	-
21		<b>Totals</b>	<b>\$ 3,361,523</b>	<b>\$ 201,581</b>	<b>\$ 3,159,942</b>		<b>\$ 88,486</b>

Composite Depreciation Rate (Depr Exp/Depreciable Plant)\* 2.80%

CIAC \$ (1,226,466)

Amortization of CIAC \$ (34,344)

Net Depreciation Expense \$ 54,142

Test Year Net Depreciation Expense as Filed 54,654

**Total Adjustment \$ (512)**

\*Note the Company does not agree that this is the appropriate way to calculate CIAC amortization but follows Staff here in order to reduce the number of issues in dispute.

Naco Water Company

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Test Year Ended December 31, 2012

Schedule MJR 6

STAFF OPERATING INCOME ADJUSTMENT #7 - PROPERTY TAX EXPENSE GRCF COMPONENT

LINE NO.	DESCRIPTION	[A] Test Year Adjusted	[B] At Required Revenue
1	Adjusted Test Year Revenues	\$ 255,089	\$ 255,089
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	510,177	510,177
4	Adjusted Test Year Revenues	255,089	
5	Required Revenue		306,330
6	Subtotal (Line 4 + Line 5)	765,266	816,507
7	Number of Years	3	3
8	Three Year Average (Line 5 / Line 6)	255,089	272,169
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (Line 7 * Line 8)	510,177	544,338
11	Plus: 10% of CWIP	-	-
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (Line 10 + Line 11 - Line 12)	510,177	544,338
14	Assessment Ratio	18.5%	18.5%
15	Assessment Value (Line 13 * Line 14)	94,383	100,703
16	Composite Property Tax Rate	12.2439%	12.2439%
17	Test Year Adjusted Property Tax Expense (Line 15 * Line 16)	\$ 11,556	
18	Actual Property Tax Paid	\$ 12,486	
19	Test Year Adjustment (Line 17 - Line 18)	\$ (930)	
20	Property Tax on Required Revenue (Line 15 * Line 16)		\$ 12,330
21	Test Year Adjusted Property Tax Expense (Line 17)		\$ 11,556
22	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 774
23	Increase in Property Tax Due to Increase in Revenue Requirement (Line 22)		\$ 774
24	Increase in Revenue Requirement		\$ 51,241
25	Increase in Property Tax Per Dollar Increase in Revenue (Line 23 / Line 24)		1.51009%

Naco Water Company  
Docket No. W-02860A-13-0399  
Test Year Ended December 31, 2012

Schedule MJR 7

**DETAIL OF ADJUSTMENT TO RATE CASE EXPENSES**

Line	Description	Amount As Filed	Revised Amount	Change
1	Estimated Rate Case Expenses	\$ 27,690	\$ 50,000	\$ 22,310
2	Amortization Period in years	3	4	1
3	Annual expense recovery	\$ 9,230	\$ 12,500	\$ 3,270

Naco Water Company  
Docket No. W-02860A-13-0399  
Test Year Ended December 31, 2012

Schedule MJR 8

**CALCULATION OF INCOME TAX AT PROPOSED RATES**

<b>Line</b>	<b>Description</b>			
1	<b>Test Year</b>			
2	Operating Income/(Loss) Before Taxes	\$	30,145	
3	Add Interest Income		6	
4	Less Estimated Interest Expense		<u>(1,717)</u>	
5	Taxable Income	\$	28,434	
6	Effective Combined Federal and State Income Tax Rate		<u>15.97%</u>	
7	Total Income Tax Expense			\$ 4,541
8	Test Year income Tax Expense			<u>\$ 4,610</u>
9	<b>Total Adjustment e to Test Year Income Taxes</b>			<u><u>\$ (69)</u></u>
10				
11	<b>At Proposed Rates</b>			
12	Operating Income/(Loss) Before Taxes	\$	80,530	
13	Add Interest Income		6	
14	Less Estimated Interest Expense		<u>(1,717)</u>	
15	Taxable Income	\$	78,819	
16	Effective Combined Federal and State Income Tax Rate		<u>15.97%</u>	
17	Total Income Tax Expense			\$ 12,587
18	Adjusted Test Year income Tax Expense			<u>\$ 4,610</u>
19	<b>Total Adjustment to Income Taxes at Proposed Rates</b>			<u><u>\$ 7,977</u></u>

<b>Cash Flow and Operating Margin</b>
---------------------------------------

	<b>Company Test Year As Adjusted</b>	<b>Company Proposed Rebuttal</b>	<b>Staff Recommended 1</b>	<b>Staff Recommended 2</b>
Operating Revenue	\$ 255,089	\$ 306,330	\$ 287,231	\$ 287,231
Operating Expenses				
Operation and Maintenance	\$ 156,145	\$ 158,016	\$ 123,784	\$ 123,784
Depreciation	54,654	54,142	53,889	53,889
Property and Other Taxes	13,715	13,641	13,271	13,271
Income Tax	4,610	12,587	10,412	10,412
Total Operating Expense	\$ 229,124	\$ 238,387	\$ 201,356	\$ 201,356
Operating Income	\$ 25,964	\$ 67,943	\$ 85,875	\$ 85,875
Add Depreciation	54,654	54,142	53,889	53,889
Less Interest Expense	1,717	1,717	28,986	28,986
Less Principal Repayment	70,778	70,778	70,778	70,778
Less Capital Expenditures	-	-	26,350	16,800
Free Cash Flow	\$ 8,123	\$ 49,590	\$ 13,650	\$ 23,200
<b>DSC</b>				
Before Tax:	1.18	1.86	1.24	1.34
After Tax:	1.11	1.68	1.14	1.23
<b>Operating Margin</b>	10%	22%	30%	30%

Naco Water Company  
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Test Year Ended December 31, 2012

Schedule MJR 10  
Title: Computation of Gross Revenue  
Conversion Factor

**GROSS REVENUE CONVERSION FACTOR**

LINE NO.	DESCRIPTION	(A)	(B)	(C)
<u>Calculation of Gross Revenue Conversion Factor:</u>				
1	Revenue	100.0000%		
2	Uncollectible Factor (Line 11)	0.0000%		
3	Revenues (L1 - L2)	100.0000%		
4	Combined Federal and State Tax Rate (Line 17) + Property Tax Factor (Line 22)	17.2389%		
5	Subtotal (L3 - L4)	82.7611%		
6	Revenue Conversion Factor (L1 / L5)	1.208298		
<u>Calculation of Uncollectible Factor:</u>				
7	Unity	100.0000%		
8	Combined Federal and State Tax Rate (Line 17)	15.9700%		
9	One Minus Combined Income Tax Rate (L7 - L8)	84.0300%		
10	Uncollectible Rate	0.0000%		
11	Uncollectible Factor (L9 * L10)	0.0000%		
<u>Effective Combined Tax Rate of LLC's Owner:</u>				
12				
13				
14				
15				
16				
17	Combined Federal and State Income Tax Rate (See Testimony)	15.9700%		
<u>Calculation of Effective Property Tax Factor</u>				
18	Unity	100.0000%		
19	Combined Federal and State Tax Rate (Line 17)	15.9700%		
20	One Minus Combined Income Tax Rate (L18 - L19)	84.0300%		
21	Property Tax Factor (Schedule C-2b)	1.5101%		
22	Effective Property Tax Factor (L 21 * L 22)	1.2689%		
23	Combined Federal and State Tax and Property Tax Rate (L17+L22)		17.2389%	
24	Required Operating Income (Schedule A-1)	\$ 67,943		
25	Adjusted Test Year Operating Income (Loss) (Schedule C-1)	\$ 25,535		
26	Required Increase in Operating Income (L24 - L25)		\$ 42,408	
27	Income Taxes on Recommended Revenue (Schedule C2e)	\$ 12,587		
28	Income Taxes on Test Year Revenue (Schedule C2e)	\$ 4,541		
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ 8,047	
30	Recommended Revenue Requirement	\$ 306,330		
31	Uncollectible Rate (Line 10)	0.0000%		
32	Uncollectible Expense on Recommended Revenue (L24 * L25)	\$ -		
33	Adjusted Test Year Uncollectible Expense	\$ -		
34	Required Increase in Revenue to Provide for Uncollectible Exp. (L32 - L33)		\$ -	
35	Property Tax with Recommended Revenue (Schedule C-2b)	\$ 12,330		
36	Property Tax on Test Year Revenue (Schedule C-2b)	\$ 11,556		
37	Increase in Property Tax Due to Increase in Revenue (Schedule C-2b)		\$ 774	
38	Total Required Increase in Revenue (L26 + L29 + L34+L37)		\$ 51,228	



Naco Water Company  
Docket No. W-02860A-13-0399  
Test Year Ended December 31, 2012

**Schedule MJR 11 (REBUTTAL Schedule A-1 )**  
**Title: Computation of Increase in Gross**  
**Revenue Requirements**

<u>Line</u>	<u>Original Cost</u>	<u>RCND</u>
1 Adjusted Rate Base	\$ 1,357,183 (a)	
2 Adjusted Operating Income	\$ 25,535 (b)	
3 Current Rate of Return	1.88%	
4 Required Operating Income	\$ 67,943	
5 Required Rate of Return	5.01%	
6 Operating Income Deficiency (4 - 2)	\$ 42,408	
7 Gross Revenue Conversion Factor	<u>1.208 (c)</u>	
8 Increase in Gross Revenue Requirements (6 x 7)	<u>\$ 51,241</u>	

**Naco Water Company**

**Schedule MJR 12 (REBUTTAL Schedule D-1)**

**Docket No. W-02860A-13-0399**

**Title: Summary Cost of Capital**

**Test Year Ended December 31, 2012**

Line	Invested Capital	End of Test Year			
		Amount	%	Cost Rate (e)	Composite Cost %
1	Long-Term Debt (a)	\$ 1,208,258	72.31%	0.13%	0.09%
2	Common Equity (c)	462,570	27.69%	17.75%	4.91%
3	Totals	\$ 1,670,828	100.00%		5.01%

**Monthly Usage Charge**

	Present Rate	Proposed Rate	% Change
5/8th by 3/4" Meters	32.16	36.95	15%
3/4" Meters	32.16	36.95	15%
1" Meters	62.50	71.81	15%
1.5" Meters	82.50	94.79	15%
2" Meters	96.20	110.53	15%
3" Meters	180.00	206.81	15%
4" Meters	285.00	327.45	15%
6" Meters	600.00	689.37	15%

**Commodity Charges**

	Present Rates			Proposed Rates			% Change
	Tier Breaks	Rate		Tier Breaks	Rate		
5/8th by 3/4" Meters	1 to 3,000	4.54		1 to 3,000	5.75		27%
(Residential)	3001 to 9,000	6.82		3001 to 9,000	8.62		26%
	over 9,000	8.19		over 9,000	10.35		26%
3/4" Meters	1 to 3,000	4.54		1 to 3,000	5.75		27%
(Residential)	3001 to 9,000	6.82		3001 to 9,000	8.62		26%
	over 9,000	8.19		over 9,000	10.35		26%
5/8th by 3/4" Meters	1 to 9,000	6.82		1 to 3,000	5.75		-16% *
(Commercial)	over 9,000	8.19		3001 to 9,000	8.62		5% *
				over 9,000	10.35		26% *
3/4" Meters	1 to 9,000	6.82		1 to 3,000	5.75		-16% *
(Commercial)	over 9,000	8.19		3001 to 9,000	8.62		5% *
				over 9,000	10.35		26% *
1" Meters	1 to 18,000	6.82		1 to 30,000	8.62		26% *
(Residential & Commercial)	over 18,000	8.19		over 30,000	10.35		26% *
1.5" Meters	1 to 30,000	6.82		1 to 30,000	8.62		26%
(Residential & Commercial)	over 30,000	8.19		over 30,000	10.35		26%
2" Meters	1 to 35,000	6.82		1 to 30,000	8.62		26% *
(Residential & Commercial)	over 35,000	8.19		over 30,000	10.35		26% *
3" Meters	1 to 93,000	6.82		1 to 30,000	8.62		26% *
(Residential & Commercial)	over 93,000	8.19		over 30,000	10.35		26% *
4" Meters	1 to 150,000	6.82		1 to 30,000	8.62		26% *
(Residential & Commercial)	over 150,000	8.19		over 30,000	10.35		26% *
6" Meters	1 to 300,000	6.82		1 to 30,000	8.62		26% *
(Residential & Commercial)	over 300,000	8.19		over 30,000	10.35		26% *

\*Note: For meter sizes where the proposed Tier Breaks are changing the percent change does not reflect the % change across all usage levels. It is simply the percent change in the rate.

**Service Line and Meter Installation Charges**

	Present Rate	Proposed Rate		% Change	
		Service Line	Meter Installation	Total	
5/8th by 3/4" Meters	450.00	490.00	131.50	621.50	38%
3/4" Meters	475.00	490.00	232.50	722.50	52%
1" Meters	550.00	547.00	293.00	840.00	53%
1.5" Meters	775.00	609.50	505.50	1,115.00	44%
2" Meters	1,375.00	927.00	1,030.50	1,957.50	42%
3" Meters	1,975.00	1,171.00	1,661.50	2,832.50	43%
4" Meters	3,040.00	1,661.00	2,646.50	4,307.50	42%
6" Meters	5,635.00	2,478.50	5,025.50	7,504.00	33%

**Service Charges**

	Present Rate	Proposed Rate	% Change
Establishment	\$ 30.00	\$ 30.00	0%
Establishment (After Hours)	40.00	Eliminate	NA
Reconnection (Delinquent)	30.00	30.00	0%
Reconnection (After Hours)	40.00	Eliminate	NA
After Hours Service Charge	NA	35.00	NA
Meter Test (If Correct)	30.00	30.00	0%
Deposit	*	*	0%
Deposit Interest	*	*	0%
Reestablishment (Within 12 months)	**	**	0%
Reestablishment (After Hours)	**	Eliminate	NA
NSF Check	20.00	20.00	0%
Deferred Payment per month	1.5% of	1.5% of	
	Outstanding Balance	Outstanding Balar	0%
Meter Reread (if correct)	15.0	15.0	0%
Moving Customer Meter at			
Customer request per rule			
R14-2-405B	Cost	Cost	0%

\*Per Commission Rule AAC R-14-2-403(B)

\*\*Months off system times the monthly minimum per Commission rule AAC R14-2-403(D).

In addition to the collection of regular rates, the utility will collect from its customers a proportionate share of any privilege, use, and franchise tax. Per Commission Rules 14-2-409(D)(5).

# **ATTACHMENT 2**

1                   **BEFORE THE ARIZONA CORPORATION COMMISSION**

2

3

4    **COMMISSIONERS**

5    BOB STUMP, CHAIRMAN  
6    GARY PIERCE  
7    BRENDA BURNS  
8    SUSAN BITTER-SMITH  
9    BOB BURNS

10   **APPLICATION OF NACO WATER**  
11   **COMPANY, LLC FOR A PERMANENT**  
12   **INCREASE TO ITS WATER RATES**

DOCKET NO: W-02860A-13-0399

13                   **REBUTTAL TESTIMONY**  
14                   **OF BONNIE O'CONNOR**

15   **Q.     Please state your name and current employment position:**

16   **A.     Bonnie O'Connor, President, Southwestern Utility Management, Inc., which is**  
17   **serving as the manager of Naco Water Company, LLC ("Naco" or "Company").**

18   **Q.     Describe your educational and professional background:**

19   **A.     I am currently the President of Southwestern Utility Management, Inc.**  
20   **("Southwestern" or "Interim Manager"). I have worked in an administrative and**  
21   **management capacity for more than 50 Arizona utilities for approximately 30 years.**

22   **Q.     Do you agree with Staff's recommendation that the Company submit a**  
23   **detailed water loss reduction plan with Docket Control before any rate increase**  
24   **recommended in this matter becomes effective?**

25   **A.     No. First of all, the Company has substantially reduced its water loss over the past**  
26   **several years. The Naco water system is very old for the most part. Substantially**  
27     
28

1 reducing water loss even more will be very costly and will not “save” much water.

2 However, as Naco has repeatedly stated, if the Company is provided a revenue stream to  
3 pay the costs associated with addressing water loss, then it would implement such a  
4 program.  
5

6 **Q. Do you agree with Staff’s recommendation that the Company submit at least**  
7 **five BMP tariffs for consideration?**  
8

9 **A.** No. The Company understands that the Commission does not require companies  
10 to adopt BMPs any longer.  
11

12 **Q. Do you agree with Staff’s reports regarding the system in place for the area**  
13 **that is commonly referred to as Well Site No. 3 System?**

14 **A.** No. We disagree with the adjustments as noted by Matthew Rowell. Further, it is  
15 very difficult to understand or determine why the adjustments were made. For example,  
16 in Table 5, Staff adjusts Structures and Improvements (304) by \$4,000. The rationale is  
17 that the concrete pads, fencing, and shed were not in service in 2011. That is obviously  
18 true, which is why there is a need for a pro forma adjustment. But they are in service  
19 now. Further, Staff takes the position that safety equipment is not useful. This makes no  
20 sense. Naco operators should have access to safety equipment at the site where they  
21 often work. Finally, it appears as though there are discrepancies in the plant descriptions.  
22 Naco is in the process of confirming the accuracy of the plant as described in the Staff  
23 testimony and will supplement its response herein if necessary.  
24  
25  
26

27 **Q. Do you agree with Matthew Rowell’s rebuttal testimony?**  
28

**A.** Yes.

1 **Q. Does this conclude your testimony?**

2 **A. Yes.**